

Investment Office

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August 15, 2005

AGENDA ITEM 7b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Investor Network on Climate Risk (INCR) Update

II. PROGRAM: Global Equity

III. RECOMMENDATION: Information Only

IV. ANALYSIS:

On May 16, 2005, the Investment Committee directed staff to become a signatory on the 2005 "Call for Action" by the Investor Network on Climate Risk ("INCR"). The "Call for Action" is a ten-point action plan focusing on four targeted sectors (Attachment 1) and while the signatories are encouraged to act on each action point, they are not required to do so. In this agenda item, staff provides information on how CalPERS will respond to each of the ten points of the "Call for Action."

<u>Institutional Investors</u>

INCR's Call to Action	CalPERS' Response
1. Invest capital, individually or	CalPERS has committed up to \$700 million in
collectively, in companies	environmental investing (up to \$200 million in private
developing and deploying clean	equity funds that focus on clean technologies and up
technologies, which we believe will	to \$500 million in environmental investing strategies).
enhance and sustain the long-term	In May 2005, Private Equity made its first commitment
viability of corporate assets and	of up to \$15 million in NGEN Partners, LLC. It is
shareholder value.	anticipated that up to \$80 to \$100 million in
	commitments will be made by the end of December
	2005. As of June 30, 2005, Global Equity has
	invested \$50 million in BGI's iShares KLD Select
	Social Index Fund and staff is currently reviewing
	responses to the Environmental Global Equity RFP.

2. Support appropriate shareholder resolutions and company engagement to improve corporate disclosure and governance on climate risk.	At the Board's direction, CalPERS planned to support the shareowner resolutions filed at Ford Motor Company and General Motors by hiring a proxy solicitor to encourage other shareowners to vote "For" them. Ford announced its plans to issue a report on Climate Change by the end of 2005 and as a result the co-filers withdrew their proposal. CalPERS supported the shareowner proposal filed at GM by voting "For" it and hiring a proxy solicitor to encourage other shareowners to vote "For" it. In addition, CalPERS supported shareowner resolutions filed at both ChevronTexaco (Report on Oil and Gas Drilling in Protected and Sensitive Areas and Report on Environmental Concerns in Ecuador) and Exxon Mobil (Climate Science Report and Kyoto Compliance Report). Staff has also joined the Global Warming Shareholder Campaign's (GWSC) Auto Sector and Electric Power & Coal Sectors working groups. The working groups will allow staff to monitor and stay abreast of opportunities to support shareowner resolutions and company engagements with the objective to improve environmental disclosure.
3. Adopt a reliable and generally accepted global standard for disclosure of climate risk.	CalPERS has supported the Carbon Disclosure Project (CDP) by becoming a signatory on its 2005 information request and has addressed this topic with groups such as Ceres and the GWSC. Staff will monitor efforts to develop a reliable and generally accepted global standard for disclosure of climate risk by remaining in contact with such groups and through regular discussions with INCR.
4. Promote information sharing among the growing number of institutional investors and organizations around the world concerned about climate risk.	CalPERS is actively participating in groups focusing on sharing information at the global level such as GWSC and CDP. INCR will continue to update staff on efforts to build a new forum for international investor collaboration on climate risk.

Fund Managers and Financial Advisors

INCR's Call to Action	CalPERS' Response
5. Improve capacity to assess	In its recent Environmental Global Equity RFP,
climate risk.	CalPERS required the environmental investment
	managers to 1) define and discuss environmental
	factors and how they are incorporated into the

	investment process and portfolio construction, and 2) discuss how research into environmental factors is utilized and incorporated into the portfolio. Staff is currently reviewing the responses to the Environmental Global Equity RFP.
6. Improve mutual fund engagement in addressing climate risk.	INCR has commissioned a scorecard showcasing how mutual funds vote on climate change shareowner resolutions, which is scheduled to be released in Fall 2005. Through regular discussions with INCR, CalPERS will stay abreast of the scorecard's development and possible opportunities in which CalPERS can assist in this effort.

Companies

INCR's Call to Action	CalPERS' Response
7. Engage and encourage all	CalPERS was a signatory on a recent INCR letter that
publicly-held companies in the auto,	was mailed to the 50 largest publicly-owned emitters
electric power, and oil and gas	of carbon dioxide in the U.S. electric power sector
sectors to follow the lead of some	requesting they evaluate the financial risks and
companies and report within a year	opportunities of climate risk on shareowner value
how likely scenarios for climate	(Attachment 2). CalPERS is also currently working
change, future GHG limits, and	with CalSTRS on a similar initiative to improve
dwindling access to inexpensive	environmental transparency and disclosure at our
energy will affect their businesses	portfolio companies in the global electric power sector.
and competitiveness, and to identify	Staff will continue to monitor and look for opportunities
steps they are taking to reduce	like those presented in the GWSC working groups
those financial impacts and seize	mentioned above to engage with companies to
new emerging market opportunities.	consider and address climate risk.
Renew dialogue between	Through the GWSC working groups and regular
investors and all companies that	discussions with INCR, staff will keep abreast of
have already disclosed their climate	opportunities to solicit feedback from companies that
risk to focus on steps that investors	have already disclosed their climate risk. Staff also
and companies can take to address	plans to recognize individual corporate leaders in
this risk.	environmental transparency and disclosure "Best
	Practices" through a public agenda item later in the
	fiscal year.
9. Help investors assess climate	CalPERS assisted INCR with the development of a
risk.	"Corporate Governance Score Card on Climate Risk"
	by reviewing both the methodology and checklist and
	providing feedback. The review period is now closed
	and the score card should be completed by December
	2005.

Government

INCR's Call to Action	CalPERS' Response
10. Engage and encourage the SEC to require that companies disclose the risk associated with	CalPERS supports improved environmental data transparency and timely disclosure and therefore will monitor efforts made to work with the SEC.
climate change as part of their securities filings.	

V. STRATEGIC PLAN:

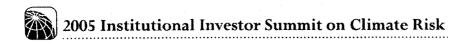
This item is not a product of either the 2005-2006 Strategic or Annual Plan.

VI. RESULTS/COSTS:

Costs associated with this item are minimal and will be absorbed by the current Investment Office budget.

Kelly Forrest Investment Officer, Corporate Governance
Winston Hickox
Special Advisor, Environmental Initiatives
Marie and Ohan and I Marie
William Sherwood-McGrew
Portfolio Manager, Corporate Governance
Christianna Wood
Senior Investment Officer, Global Equity

Mark Anson Chief Investment Officer



Background

In November 2003, in the midst of the first Institutional Investor Summit on Climate Risk, leading investors launched a new effort to address the financial risks and investment opportunities posed by climate change. The Investor Network on Climate Risk (INCR), inaugurated by ten institutional investors, announced a ten-point action plan, and began to educate other investors about climate risk.

Today we are reporting on the status of the action items included in the first action plan and announcing the next steps we intend to take on this issue.

During the past 18 months, investors have advocated and achieved increased corporate disclosure of climate risk, encouraged investment company consideration of climate risk in investment decision-making, and witnessed new government policies to set global warming emission standards that create certainty and level the playing field among all companies.

While substantial progress has been made, too few investors are seriously addressing the risks and opportunities posed by climate change, and most investment managers lack expertise in climate change or the capacity to assess its risks to portfolios. While some companies have begun to treat climate change as a fundamental strategic issue, many more are not disclosing their climate risk or plans to address it, creating uncertainty for investors and difficulty assessing the true longer-term value of our portfolios.

We are more firmly convinced than ever that climate change presents a material risk to investment portfolios, especially as policies to limit emissions, such as the Kyoto Protocol and various state initiatives, take hold. Indeed, prudence, common sense, fiduciary responsibility, and legal duty compel us to examine the financial ramifications of climate risk with care, and where appropriate, to act.

As fiduciaries of hundreds of billions of dollars of fund assets, we are compelled to renew previous efforts and take additional steps to respond to the challenges and opportunities presented by climate risk. It is our intention to use the knowledge we have gained, in the absence of clear policy, to encourage disclosure that will better enable us to measure our risks as shareholders due to climate change.

^{1.} Phil Angelides, Treasurer, State of California; Randall Edwards, Treasurer, State of Oregon; Dale McCormick, Treasurer, State of Maine; Denise Nappier, Treasurer, State of Connecticut; Jeb Spaulding, Treasurer, State of Vermont; Robert Vigil, Treasurer, State of New Mexico; Alan Hevesi, Comptroller, State of New York; William Thompson, Comptroller, New York City; Steve Abrecht, Executive Director, National Industry Pension Fund, Service Employees International Union (SEIU); and William J. Boarman, Chairman of the Board of Trustees, CWA/ITU Negotiated Pension Plan.

Managing Climate Risk and Capturing the Opportunities: A Renewed Call for Action

Recognizing that climate change embodies risks and opportunities of a significant magnitude for investors and our economy, and represents one of the greatest challenges facing our planet, we are compelled to seek improved approaches in responding to the fiscal ramifications of climate risk for institutional investors, fund managers and financial advisors, companies, and others. Therefore, we call on each of these sectors to respond, affirmatively and definitively, and state our intention to move forward to implement this essential agenda.

Institutional investors

- 1. Call to Action: Invest capital, individually or collectively, in companies developing and deploying clean technologies, which we believe will enhance and sustain the long-term viability of corporate assets and shareholder value.
 Our Commitment: Our collective goal in the next year is to seek to deploy \$1 billion of capital to achieve attractive investment returns over the long term and help catalyze adoption of clean technology in the broader marketplace, while at the same time adhering to the fiduciary standards that govern our overall actions.
- 2. Call to Action: Support for and success of appropriate shareholder resolutions and company engagement to improve corporate disclosure and governance on climate risk.
 - **Our Commitment:** We will develop through the Investor Network on Climate Risk (INCR) a model climate risk policy for institutional investors. This policy will specifically address shareholder resolutions, proxy voting, and corporate dialogue on climate risk. We will share the policy with other institutional investors and with fund managers.
- 3. Call to Action: Adopt a reliable and generally accepted global standard for disclosure of climate risk.

 Our Commitment: We pledge to work with investors around the world to develop such a standard.
- 4. Call to Action: Promote information sharing among the growing number of institutional investors and organizations around the world concerned about climate risk.
 - Our Commitment: We will build a new forum for international investor collaboration on climate risk.

Fund managers and financial advisors

- 5. Call to Action: Improve capacity to assess climate risk.
 Our Commitment: We will require and validate that relevant investment managers, seeking to manage our fund assets, describe the resources, expertise and process that they use to assess the risks associated with climate change.
- 6. Call to Action: Improve mutual fund engagement in addressing climate risk.
 Our Commitment: INCR will publish an annual scorecard showcasing how mutual funds vote on climate change shareholder resolutions.

Companies

- 7. Call to Action: All publicly-held companies in the auto, electric power, and oil and gas sectors should follow the lead of some companies and report within a year how likely scenarios for climate change, future greenhouse gas limits, and dwindling access to inexpensive energy will affect their businesses and competitiveness, and to identify steps they are taking to reduce those financial impacts and seize new emerging market opportunities.
 Our Commitment: We will engage with these companies to consider and address climate risk.
- 8. Call to Action: Renew dialogue between investors and all companies that have already disclosed their climate risk to focus on steps that investors and companies can take to address this risk.
 Our Commitment: We will engage with companies, recognize leaders, and promote best practices.
- Our Commitment: We will engage with companies, recognize leaders, and promote best practices.
 Call to Action: Help investors assess climate risk.
 - Our Commitment: Through INCR, we will produce the "Corporate Governance Score Card on Climate Risk", an annual corporate governance scorecard of 100 large emitters of greenhouse gases. We will distribute this scorecard throughout the investor community by the end of 2005. This report will inform them of the efforts that companies and their boards of directors are taking to consider and address climate risk.²

Government

- 10. Call to Action: The Securities and Exchange Commission (SEC) to require that companies disclose the risk associated with climate change as part of their securities filings.
 - Our Commitment: We will work with the SEC to disclose climate risk.

A New Call for Action: **Managing Climate Risk and Capturing the Opportunities** May 10, 2005

Signers

State Treasurers:

Phil Angelides, Treasurer, State of California Randall Edwards, Treasurer, State of Oregon Nancy Kopp, Treasurer, State of Maryland David Lemoine, Treasurer, State of Maine Denise Nappier, Treasurer, State of Connecticut Jeb Spaulding, Treasurer, State of Vermont Robert Vigil, Treasurer, State of New Mexico

State and City Comptrollers:

Alan G. Hevesi, Comptroller, State of New York William C. Thompson, Jr., Comptroller, New York City Steve Westly, Controller, State of California

Public Pension Funds:

Jack Ehnes, CEO, California State Teachers' Retirement System (CalSTRS) Rob Feckner, President, California Public Employees' Retirement System (CalPERS) George M. Philip, Executive Director, New York State Teachers' Retirement System Edward Smith, Chairman, Illinois State Board of Investment

Labor Pension Funds:

Steve Abrecht, Executive Director, National Industry Pension Fund, Service Employees International Union (SEIU) William J. Boarman, Chairman of the Board of Trustees, CWA/ITU Negotiated Pension Plan

R. Thomas Buffenbarger, President, International Association of Machinists

M. Benny Hernandez, Administrator, Sheetmetal Workers Pension Fund

C. Thomas Keegel, General Secretary Treasurer, International Brotherhood of Teamsters;

Trustee, Teamsters Affiliates Pension Plan

Gerald McEntee, President, American Federation of State, County and Municipal Employees (AFSCME)

Bruce Raynor, President, UNITE HERE

Foundations:

Stephen B. Heintz, President, Rockefeller Brothers Fund Lance E. Lindblom, President and CEO, The Nathan Cummings Foundation

Religious Institutional Investors:

The General Board of Pension and Health Benefits of the United Methodist Church William Somplatsky-Jarman, Presbyterian Church (USA)

European Investor Supporters of the Call for Action:

Sir Graeme Davies, Chairman, Universities Superannuation Scheme Neil Newton, Chair, London Pensions Fund Authority Peter Scales, Chief Executive, London Pensions Fund Authority

Attachment 2

July 8, 2005

«First_Name» «Last_Name»
«Title»
«Company»
«Address_1»
«Address_2»
«City_», «State» «Zip»

Dear Mr. «Last Name».

As we announced in April, we are writing to request that «Company» issue further disclosure regarding the risks posed by climate change and the company's efforts to mitigate those risks. As one of the 50 largest publicly-owned emitters of carbon dioxide in the U.S. electric power sector, «Company» needs to evaluate the financial risks and opportunities of climate risk on shareholder value.

On May 10, 2005, two-dozen leading U.S. and European institutional investors managing over \$3 trillion in assets released a 10-point action plan calling on U.S. companies, Wall Street firms and the Securities and Exchange Commission to intensify efforts to provide investors with comprehensive analysis and disclosure about the financial risks presented by climate change. The group also pledged to invest \$1 billion in prudent business opportunities emerging from the drive to reduce greenhouse gas emissions.

The scientific community is in general consensus that climate change poses imminent health and global risks, and economists therefore predict that future regulation of greenhouse gases is inevitable. As institutional investors, we must evaluate the long-term value of the companies in which we invest. We must also consider the global economic implications of climate change, which will have an impact on the long-term value of our investments. Scientists and economists are in agreement that climate change will have real and widespread repercussions on the global economy. Recent articles in Fortune, the McKinsey Quarterly, Business Week and The Conference Board have highlighted this consensus and discussed the urgent need for industry to help develop solutions that will expedite the transition to a less carbon-intensive economy. Meanwhile, CEOs of leading companies, such as General Electric, JPMorgan, Cinergy, and Duke Energy have been urging industry to prepare for future carbon constraints.

In the past few years, investors identified numerous companies in the electric power sector as having potential exposure to climate change risks. Shareholder proposals requesting a report on climate risks and plans for managing them were filed at many of these companies. Several companies, including American Electric Power, Cinergy, DTE Energy, FirstEnergy, Progress Energy, Southern Company, and TXU, accepted the merits of these shareholder proposals, and acknowledged the importance of disclosing this

information. AEP, Cinergy, Southern Company and TXU have released their climate risk reports. We believe that «Company» should prepare a similar report in order to stay competitive and deliver the necessary information on climate risk and opportunities to shareholders.

At a minimum, a climate disclosure report should include the following elements:

- Emissions Companies should disclose their historical, current, and future emissions of greenhouses gases from both their operations and their products. Investors can use this emissions data to approximate the risk the companies may face from future climate change regulations.
 - Corporate Climate Actions Companies should disclose what specific actions they are taking to address climate change. These should include both corporate governance actions, such as establishing corporate climate policy or Board consideration of climate change, as well as specific actions the company is taking to reduce emissions, such as investments in clean energy technology or establishment of a voluntary emissions reduction target.
- Quantified Scenario Analysis Companies should analyze and quantify the effect on the firm and shareholder value of a limited number of plausible greenhouse gas regulatory scenarios in the United States. For companies with operations or sales in countries other than the United States, this analysis should include consideration of international scenarios including compliance with Kyoto Protocol. In the U.S., scenarios should include state and regional GHG regulations, passage of the McCain-Lieberman Climate Stewardship Act, and expectations concerning the future cost of carbon. These scenarios should also incorporate the possibility that consumer demand may shift sharply due to changes in domestic and international energy markets.
- Strategic Analysis and Plan Companies should disclose management's strategic analysis of the climate change issue, including its implications for competitiveness, and its plan for meeting any strategic challenges it may identify. Climate change represents a significant strategic challenge, so analysis that fails to identify any future challenges is likely to be viewed as deficient. In addition, this disclosure should explain the company's view of its most cost-effective strategies to reduce greenhouse gases, and the company's current position on the science and policy of climate change.

In early fall, a group of investors, industry experts and environmental groups convened by Ceres will release recommendations for best practices in disclosure and financial management of climate risk in the electricity sector. Ceres also released a report in April that analyzes climate risk reports issued last year by AEP, Cinergy and TXU. The report is available at http://www.ceres.org/pub/. For inquiries regarding this letter, please contact

Dan Bakal at Ceres at (617) 247-0700 ext. 13 or <u>bakal@ceres.org</u>. We hope that «Company» will assume a leadership role with respect to these important challenges, which will result in enhanced shareholder value for all investors.

Sincerely,

Geeta Aiyer, President, Boston Common Asset Management, LLC

Phil Angelides, Treasurer, State of California

M. Benny Hernandez, Administrator, Sheetmetal Workers Pension Fund

Alan G. Hevesi, Comptroller, State of New York

C. Thomas Keegel, General Secretary Treasurer, International Brotherhood of Teamsters; Trustee, Teamster Affiliates Pension Plan

Nancy Kopp, Treasurer, State of Maryland

Lance E. Lindbloom, President & CEO, The Nathan Cummings Foundation

Mindy Lubber, President, Ceres

Denise Nappier, Treasurer, State of Connecticut

William Somplatsky-Jarman, Committee on Mission Responsibility Through Investment, The Presbyterian Church (USA)

Jeb Spaulding, Treasurer, State of Vermont

William C. Thompson Jr., Comptroller, New York City

Steve Westly, Controller, State of California

California Public Employees' Retirement System

California State Teachers' Retirement System

Christian Brothers Investment Services

General Board of Pensions - United Methodist Church

Trillium Asset Management Corporation



MINUTES OF MEETING OPEN SESSION

August 15, 2005

The Investment Committee met on Monday, August 15, 2005 in the Lincoln Plaza Building, 400 P Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Charles Valdes, Chair George Diehr, Vice Chair

Ron Alvarado

Philip Angelides, represented by John Hiber and Ted Eliopoulos

Marjorie Berte

Willie L. Brown, Jr.

Robert F. Carlson

Rob Feckner

Priya Mathur

Michael Navarro

Mike Quevedo, Jr.

Kurato Shimada

Steve Westly, represented by Toni Symonds

AGENDA ITEM 2 - APPROVAL OF AGENDA

There were no changes to the agenda order.

AGENDA ITEM 3 – APPROVAL OF JUNE 13, 2005 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the June 13, 2005 Open Session minutes be approved as presented.

Ms. Berte and Mr. Feckner abstained.

AGENDA ITEM 4 - COST EFFECTIVENESS MEASUREMENT (CEM) REPORT

Mark Anson, Chief Investment Officer, presented the item. Sandy Halim, CEM Inc., presented the annual informational slide presentation on the CalPERS' defined benefit investment benchmarking analysis.

A number of suggestions from the Committee regarding content and format will be incorporated in the 2006 report and requests for additional information relevant to the 2005 report will be forwarded directly to the Committee.

The Committee accepted the informational report.

AGENDA ITEM 5a – REAL ESTATE, R Street Subcommittee Report

Mr. Hiber stated that the Treasurer would recuse himself regarding discussions or decisions about residential development within the R Street Project area. All representatives from the Treasurer's Office left the room.

Diana Proctor, Project Manager, presented the August 12, 2005, R Street Subcommittee meeting summary and highlighted the status of the headquarters building completion and move schedule.

The Committee accepted the informational report.

AGENDA ITEM 5b – REAL ESTATE, Report on R Street Building Design

Bill Chilton of Picard Chilton Architects provided a history and overview of the design of the new CalPERS headquarters building.

The Committee accepted the informational report.

AGENDA ITEM 5c – REAL ESTATE, International Real Estate Investing in Commingled Funds

Mike McCook, Senior Investment Officer, and Wenning Jung, Investment Officer, presented the item. Nori Gerardo Lietz, PCA, was available to respond to questions from the Committee.

There was a discussion regarding due diligence, Responsible Contractor Program, property management, child labor concerns, safeguard standards, and opportunities for CalPERS to extend its influence in these areas via international commingled funds.

The Chair directed staff to monitor the due diligence process and inclusion of labor standards in that process, and to report back with any concerns.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve permission for staff to invest in international commingled funds which contain strategies to invest up to 25% of the fund in countries not included on CalPERS' Permissible Equity Markets List. The selected investment funds will be subject to staff and PCA's satisfactory due diligence and negotiation of terms.

Mr. Eliopoulos, representing the Treasurer, voted no.

AGENDA ITEM 5d – REAL ESTATE, Pension Consulting Alliance Review of CURE

Mike McCook, Senior Investment Officer, and Al Fernandez, Senior Portfolio Manager, presented the item.

In response to a request from the Investment Committee for a briefing on the preliminary performance and assessment of the California Urban Real Estate (CURE) Program, Pension Consulting Alliance (PCA) reviewed the performance, interviewed and surveyed the individual partners, and discussed the results with staff.

Nori Gerardo Lietz presented PCA's findings and conclusions.

Questions were raised regarding the definition of "urban" and the project incremental allocation process. These issues will be taken up by the Policy Subcommittee.

The Committee accepted the informational report.

The meeting recessed from 11:10 to 11:20 a.m.

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

AGENDA ITEM 7a – GLOBAL EQUITY, International Equity RFP

Mark Anson, Chief Investment Officer, Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the issuance of a Request for Proposal (RFP) with a "Spring-Fed Pool" feature for (1) active international developed markets managers and (2) active emerging markets managers. The allocation of points for scoring purposes will be that the total points (not including points for fees) will be split evenly between the Committee and staff.

AGENDA ITEM 7b – GLOBAL EQUITY, Investor Network on Climate Risk (INCR) Update

Mark Anson, Chief Investment Officer, Christy Wood, Senior Investment Officer, Bill McGrew, Portfolio Manager, Winston Hickox, Special Advisor-Environmental Initiatives, and Kelly Forrest, Investment Officer, presented the item.

On May 16, 2005, the Investment Committee directed staff to become a signatory on the 2005 INCR "Call for Action" by the Investor Network on Climate Risk ("INCR"). The "Call for Action" is a ten-point action plan focusing on four targeted sectors and while the signatories are encouraged to act on each action point, they are not required to do so. Staff provided information on how CalPERS will respond to each of the ten points of the "Call for Action."

A report regarding the Environmental Initiative on Utility Industry Transparency will be provided at the September Committee meeting.

The Committee accepted the informational report.

AGENDA ITEM 7c – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update – Executive Compensation Update

Christy Wood, Senior Investment Officer, provided a status report regarding the component of the three-year executive compensation strategic plan relevant to engaging the executive compensation consulting industry. This process is ongoing and staff has met several times with four large executive compensation consulting industries and has focused on issues of transparency and overall pay-for-performance metrics.

The Committee directed staff, in conjunction with Health Benefits staff, to review and report regarding the impact of the PacifiCare and United Health merger.

The Committee accepted the informational report.

Ms. Symonds distributed a letter from the Controller to the Committee regarding his request that Morgan Stanley be considered as part of an executive compensation focus list and that CalPERS meet with the Chairman and CEO.

AGENDA ITEM 7d – GLOBAL EQUITY, Corporate Governance Fund – Delegated Authority

Mark Anson, Chief Investment Officer, and Christy Wood, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve delegation of authority to staff to invest up to \$200 million for individual investments in new Corporate Governance Active Strategies. The delegation is expressly conditioned upon the receipt of a favorable due diligence report from one of a pool of consultants and that the Chief Investment Officer participate in the selection of the consultant.

AGENDA ITEM 7e – GLOBAL EQUITY, Permissible Equity Market Research Contracts

Mark Anson, Chief Investment Officer, and Anne Stausboll, Assistant Executive Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

It was noted that the original contracts were for a three-year period with an option for two one-year renewals. This is the last one-year renewal and staff will report back at a later time with recommendations for making this a more efficient process in the future.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve a one-year extension of the Oxford Analytica and Verite contracts.

AGENDA ITEM 8 – GLOBAL FIXED INCOME

There were no items to report.

AGENDA ITEM 9 – POLICY SUBCOMMITTEE REPORT

By consent the Committee approved the following:

- a. Equity Policies
 - 1) Adoption of Developmental Investment Fund
 - 2) Revision of Equity Index Funds Internally Managed
 - 3) Adoption of Global Equity Sub-Asset Class Allocation Ranges
 - 4) Adoption of Corporate Governance Fund Investment Vehicles Externally Managed and Repeal of Hybrid and Hedge Fund Investment Vehicles Externally Managed
- b. Fixed Income Policies
 - 1) Adoption of Currency Overlay Program
- c. Real Estate Policies
 - 1) Revision of Responsible Contractor Program
 - 2) Revision of Equity Real Estate
- d. Miscellaneous Investment Policies
 - 1) Revision of Asset Allocation Strategy
- e. Administrative
 - 1) Proposed September 2005 Agenda

AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Mark Anson, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of June 30, 2005, was approximately \$189.8 billion and the total book value was approximately \$147.7 billion.

AGENDA ITEM 10b – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Wilshire Study on Calpers Corporate Governance Program

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the report and responded to questions from the Committee.

This is the second Wilshire report on the economic value of CalPERS' corporate governance activities. The study reviews CalPERS' activist program by studying the economic benefits achieved with respect to 117 companies engaged by CalPERS over the time period 1987 through mid-2004. These companies were engaged by CalPERS through shareholder proposals, the Focus List, and other governance methods.

The Committee accepted the informational report.

AGENDA ITEM 10c – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Plexus Group Gold Iceberg Award for 2004

Mark Anson, Chief Investment Officer, reported that the Plexus Group, an independent third party that measures and analyzes equity trading costs, awarded CalPERS their Gold Iceberg Award for 2004. This means CalPERS ranks in the top quartile of pension funds with low equity trading costs based on Plexus' analysis of 48 funds, including four of the top ten US pension funds based on asset size. Plexus calls the award the Gold Iceberg as they believe the "Iceberg" is analogous to trading costs in that most are hidden much as most of an iceberg is hidden beneath the water.

AGENDA ITEM 10d – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Calpers Performance Report

Mark Anson, Chief Investment Officer, reported that the return for the fund for the fiscal year ending June 30, 2005, was 12.7%, which outperformed our benchmark by 140 basis points on the total fund-wide basis. We contributed to \$2.5 billion of excess returns this last year. All staff are to be commended.

AGENDA ITEM 10e – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, CFA Institute Corporate Governance Update

Mark Anson, Chief Investment Officer, reported that the CFA Centre for Financial Market Integrity accepted his suggestion to include the new term "shareowner" into its recently adopted "Corporate Governance of Listed Companies: A Manual for Investors." The CFA's manual is used throughout the financial services industry. The term "shareowner" is designed to reflect that CalPERS is an active owner of its investments and not simply a passive holder.

The Chair directed staff to review all investment policies and to bring an agenda item to the Policy Subcommittee changing the wording to utilize "shareowner" throughout.

AGENDA ITEM 11 – DRAFT SEPTEMBER 2005 AGENDA

The Committee discussed additional items and accepted the proposed September 19, 2005 agenda.

AGENDA ITEM 12 – PUBLIC COMMENT

There were no comments from the public.

The meeting was adjourned at 12:20 p.m.

The next meeting of the Committee is scheduled for September 19, 2005 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer